

# WORK OPPORTUNITY TAX CREDIT Fact Sheet

**Introduction** — The Small Business Job Protection Act of 1996 (Public Law 104-188) has created the Work Opportunity Tax Credit (WOTC). This program is effective from October 1, 1996, until September 30, 1997. The WOTC has two purposes:

- To promote the hiring of individuals who qualify as a member of a target group.
- To provide an incentive to employers who hire these individuals, namely, a tax credit.

When an employer hires an individual who meets the criteria for this program, the employer may be able to claim federal tax credits against wages paid.

**Amount of the Work Opportunity Tax Credit** — For most eligible employees, the federal tax credit is 35 percent of the first \$6,000 of qualified wages earned in the first 12 months of employment, up to a maximum credit of \$2,100. The one exception is the federal tax credit for the Qualified Summer Youth, which is 35 percent of the first \$3,000 of qualified wages earned within any 90 day period between May 1, 1997, and September 15, 1997. The actual amount of tax credit will depend on the employer's tax rate and the amount of wages earned.

In order to claim a federal tax credit, the qualifying employee must be retained at least 180 days or have completed 400 hours of service. Employees who are qualified as Qualified Summer Youth hires must be employed at least 20 days or have completed 120 hours of service.

Employers may claim the unused portion of the Work Opportunity Tax Credit by carrying it back three years and/or forward on future tax returns for 15 years until all the credit is used.

## **Who is eligible as a member of a target group**

- Qualified recipients of Aid to Families with Dependent Children (AFDC).
- Qualified veterans receiving AFDC or Food Stamps.
- Qualified economically disadvantaged ex-felons hired no later than one year after conviction or release from prison.
- High-risk youth ages 18 through 24 who reside in an empowerment zone or enterprise community.
- Vocational rehabilitation referrals.
- Qualified summer youth ages 16 through 17 who reside in an empowerment zone or enterprise community.
- Qualified Food Stamp recipients ages 18 through 24.

## **How the WOTC Program Works For Employers** — Employers may:

- Pre-screen their own applicants to determine if they are members of one of the target groups.
- Place a job listing with EDD requesting that only WOTC eligible job seekers be referred for the job opening. EDD will pre-screen and refer the job seekers with conditional WOTC certifications.

The Internal Revenue Service (IRS) Work Opportunity Credit Pre-Screening Notice (form 8850) will serve as a request for a WOTC certification. All notices must be completed and signed under penalties of perjury by both the employer and applicant on or before the applicant is offered employment and indicate the applicant target group. The IRS Work Opportunity Credit Pre-Screening Notice (form 8850) must contain the employer's name and federal tax identification number, and the applicant's name, social security number, employment hire and start dates. It must be submitted to the EDD no later than the 21st day after the applicant starts work.

If an employer wishes to authorize an intermediary, such as an accountancy firm or a management consultant, to act on their behalf in the WOTC certification process, they must provide the EDD with a notarized Power of Attorney. The IRS form 2848, "Power of Attorney and Declaration of Employer Representative" may be used for this purpose. An equivalent document acceptable to the EDD may also be used.

## **How the WOTC Program Works For Job Seekers** — A Job seeker may:

- Let prospective employers know he/she is WOTC eligible at the time of the interview.
- Go to the nearest EDD Job Service Office to register for services and advise the EDD representative that he/she is a member of a target group.

For more information, go to the World Wide Web WOTC Home Page on the INTERNET at <http://www.edd.cahwnet.gov/wotcind>